

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001**

Rate and Service Changes To Implement)
Functionally Equivalent Negotiated Service)
Agreement with Bank One Corporation)

Docket No. MC2004-3

**REDIRECTED ANSWER OF BANK ONE CORPORATION
WITNESS LAWRENCE G. BUC TO
OFFICE OF CONSUMER ADVOCATE INTERROGATORY
OCA/USPS-T1-46
(September 1, 2004)**

Bank One Corporation hereby provides the redirected answers of witness Lawrence G. Buc to the Office of Consumer Advocate interrogatory OCA/BOC-T1-46 , filed August 5, 2004, and previously answered by the Postal Service on August 16, 2004. This redirected answer was prompted by issues and questions raised in the course of settlement discussions with the OCA, and is provided by Bank One as a follow-up answer in an effort to be responsive to those concerns. The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

/s/

David M. Levy
Joy M. Leong
Sidley Austin Brown & Wood LLP
1501 K St., N.W.
Washington, D.C. 20005
(202) 736-8000

Counsel for Bank One Corporation

September 1, 2004

OCA/USPS-T1-46. Please refer to your testimony, Appendix A, page 10, and the table below.

<u>Contribution per Piece</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
First-Class Marketing Letter, After Rates	\$0.163	\$0.158	\$0.152
Standard Letter Contribution per Piece	<u>\$0.093</u>	<u>\$0.089</u>	<u>\$0.086</u>
Net Contribution	\$0.070	\$0.069	\$0.067
Discount	<u>\$0.050</u>	<u>\$0.050</u>	<u>\$0.050</u>
Net Contribution less Discount	\$0.020	\$0.019	\$0.017

- a. Please confirm that Bank One's Year 1 After Rates Net Contribution per Piece for First-Class Marketing Letters, after the 5 cent discount, is \$0.020. If you do not confirm, please explain.
- b. Please confirm that Bank One's Year 2 After Rates Net Contribution per Piece for First-Class Marketing Letters, after the 5 cent discount, is \$0.019. If you do not confirm, please explain.
- c. Please confirm that Bank One's Year 3 After Rates Net Contribution per Piece for First-Class Marketing Letters, after the 5 cent discount, is \$0.017. If you do not confirm, please explain.

ANSWER (revised and redirected September 1, 2004):

Witness Plunkett responded to this interrogatory as follows: "Confirmed that these questions faithfully reproduce what is in my appendix A. However, this question implies that the **marginal** net contribution assuming the maximum discount equates to the **average** after rates contribution. Since many pieces would receive smaller discounts, the average net contribution per piece would be higher."

Although these questions may faithfully reproduce the calculations for "net contribution less discount" ("nclcd") from the original Appendix A, the USPS has filed a second revision to Appendix A ("Second Errata"). Accordingly, I have changed the nclcd calculations from the original interrogatory OCA/USPS-T1-46 and have presented the

new figures below in Table 1. The calculations underlying this table are derived from the revised Appendix A.

Table 1

<u>Contribution per Piece</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
First-Class Marketing Letter, After Rates	\$0.162	\$0.157	\$0.151
Standard Letter Contribution per Piece	\$0.090	\$0.087	\$0.083
Net Contribution	\$0.072	\$0.070	\$0.068
Discount	<u>\$0.050</u>	<u>\$0.050</u>	<u>\$0.050</u>
Net Contribution less Discount	\$0.022	\$0.020	\$0.018

Notwithstanding the above revisions, the nclds continue to be understated for several other reasons. The calculations in this redirected answer incorporate all of the corrections made in the Second Errata (see Table 1), but also reflect three additional revisions that should be made in determining net contribution less discount (see Table 2).

First, the Postal Service based its unit cost estimates for *Standard Mail* on the *Postal Service's* costing methodology even though it based its unit cost estimates for *First-Class Mail* on the *Commission's* costing methodology. The Commission's methodology tends to produce higher costs and correspondingly lower contribution amounts. Consistent use of the Commission's methodology to cost both mail classes would cause the estimated costs of Standard Mail (and the associated piggybacks) to increase, and the estimated contribution from Standard Mail to decrease accordingly. Thus, the net contribution less discount for each piece of mail that migrated from Standard to First Class would be higher than the model now indicates. Using one approximation of the Commission's methodology, we estimate that the increase in net

contribution less discount by correcting the mismatch of methodologies would be \$0.003 in Year 1, \$0.003 in Year 2, and \$0.003 in Year 3.¹

Second, in the calculations in Appendix A, revenues for both Standard Mail and First-Class Mail are assumed to remain constant over the entire life of the agreement. In fact, an omnibus rate increase is likely in early 2006. The effect of a rate increase would be to increase unit revenues of both First-Class and Standard Mail. Unless rates for Standard Mail bear percentage increases that are disproportionate to First-Class rate increases, the absolute difference between unit First-Class and unit Standard Mail rates will also increase, thus increasing the net contribution less discount in Year 3 of the NSA agreement for mail that is switched from Standard Mail to First-Class Mail. Assuming, for example, that the next omnibus rate case resulted in an across-the-board increase of 10 percent for all classes, effective at the beginning of Year 3, the net contribution less discount would increase by \$0.012 in Year 3.

Third, the calculations in Appendix A assume that 100 percent of new First-Class Mail volumes will be migrated volume—*i.e.*, will be offset by an offsetting reduction in Standard Mail volume. If some of the new First-Class volume is from organic growth (*i.e.*, growth not offset by migration from Standard Mail), net contribution less discount will increase, for the obvious reason that entirely new First-Class Mail volumes will not entail any offsetting loss of Standard Mail contribution. For example, if only five percent of the new volume is from organic growth and 95 percent is from mail switched from

¹ Using the Postal Service's methodology to cost both mail classes would likewise increase the estimated net contribution less discount for each piece that migrated from Standard Mail to First-Class Mail, because the estimated costs of First-Class Mail (and associated piggyback costs) would decrease, and the estimated contribution from First-Class Mail would increase accordingly.

Standard Mail, the net contribution less discount would increase by \$0.005 in Year 1, \$0.004 in Year 2, and \$0.004 in Year 3.

Table 2 below summarizes the effects of adjusting Appendix A (1) by using one approximation of the Commission's costing methodology for both Standard and First-Class Mail, (2) by assuming a 10 percent rate increase in Year 3 of the NSA, and (3) by assuming that five percent of new First-Class Mail volume represents organic growth in volume rather than migration from Standard Mail. Calculations are presented in the Attachment to OCA/USPS-T1-46 (redirected). Making these corrections increases net contribution less discount by \$0.007 in Year 1, \$0.007 in Year 2, and \$0.019 in Year 3. These increases yield a total net contribution less discounts of \$0.029 in Year 1, \$0.027 in Year 2, and \$0.037 in Year 3.

Table 2

<u>Contribution per Piece</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
First-Class Marketing Letter, After Rates	\$0.162	\$0.157	\$0.151
Standard Letter Contribution per Piece	\$0.090	\$0.087	\$0.083
Net Contribution	\$0.072	\$0.070	\$0.068
Discount	<u>\$0.050</u>	<u>\$0.050</u>	<u>\$0.050</u>
Net Contribution less Discount	\$0.022	\$0.020	\$0.018
1. Increment from PRC method	\$0.003	\$0.003	\$0.003
2. Increment from rate change	\$0.000	\$0.000	\$0.012
3. Increment from 5-percent organic growth	\$0.005	\$0.004	\$0.002
Increment from combination of 1, 2, and 3	\$0.007	\$0.007	\$0.019
Total Net Contribution Less Discount	\$0.029	\$0.027	\$0.037

NET CONTRIBUTION LESS DISCOUNT ANALYSIS

I CONSISTENT COSTING METHODOLOGIES -- USPS/PRC VERSIONS

INDEX	DESCRIPTION	VALUE	SOURCE
1	Inflation Cost Adjustment Factor	1.004	USPS-T-1 Appendix A, Revised 9/1/2004, Page 1 at 5
2			
3	Standard Mail Automation Non-Carrier Route Letter Mail Processing Cost Difference -- USPS/PRC Versions		
4	FY 2003	\$ 0.003	USPS-LR-J-84 CRA Mail Processing Unit Cost for Auto, Non-CR Letters minus USPS-LR-J-60 CRA Mail Processing Unit Cost for Auto, Non-CR Letters
5	Year 1	\$ 0.003	= 1 * 4
6	Year 2	\$ 0.003	= 1 * 5
7	Year 3	\$ 0.003	= 1 * 6
8			
9	First-Class Mail Marketing Letter, After Rates		
10	Year 1 Cost With Contingency -- PRC Version	\$ 0.130	USPS-T-1 Appendix A, Revised 9/1/2004, Page 5 at 18
11	Year 2 Cost With Contingency -- PRC Version	\$ 0.135	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 7
12	Year 3 Cost With Contingency -- PRC Version	\$ 0.141	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 7
13			
14	Year 1 Average Contribution With Contingency -- PRC Version	\$ 0.162	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 9
15	Year 2 Average Contribution With Contingency -- PRC Version	\$ 0.157	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 9
16	Year 3 Average Contribution With Contingency -- PRC Version	\$ 0.151	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 9
17			
18	Standard Mail Letter		
19	Year 1 Revenue	\$ 0.177	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 10
20	Year 2 Revenue	\$ 0.177	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 10
21	Year 3 Revenue	\$ 0.177	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 10
22			
23	Year 1 Cost With Contingency -- USPS Version	\$ 0.087	USPS-T-1 Appendix A, Revised 9/1/2004, Page 9 at 21
24	Year 2 Cost With Contingency -- USPS Version	\$ 0.090	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 11
25	Year 3 Cost With Contingency -- USPS Version	\$ 0.094	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 11
26			
27	Year 1 Cost With Contingency -- PRC Version Proxy	\$ 0.090	= 23 + 5
28	Year 2 Cost With Contingency -- PRC Version Proxy	\$ 0.093	= 24 + 6
29	Year 3 Cost With Contingency -- PRC Version Proxy	\$ 0.097	= 25 + 7
30			
31	Year 1 Average Contribution With Contingency -- USPS Version	\$ 0.090	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 12
32	Year 2 Average Contribution With Contingency -- USPS Version	\$ 0.087	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 12
33	Year 3 Average Contribution With Contingency -- USPS Version	\$ 0.083	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 12
34			
35	Year 1 Average Contribution With Contingency -- PRC Version Proxy	\$ 0.087	= 19 - 27
36	Year 2 Average Contribution With Contingency -- PRC Version Proxy	\$ 0.084	= 20 - 28
37	Year 3 Average Contribution With Contingency -- PRC Version Proxy	\$ 0.080	= 21 - 29
38			
39	Net Contribution With USPS/PRC Version Effect		
40	Year 1	\$ 0.075	= 14 - 35
41	Year 2	\$ 0.073	= 15 - 36

NET CONTRIBUTION LESS DISCOUNT ANALYSIS

I CONSISTENT COSTING METHODOLOGIES -- USPS/PRC VERSIONS

INDEX	DESCRIPTION		VALUE	SOURCE
42	Year 3		\$ 0.071	= 16 - 37
43				
44	Year 1	Less 5-Cent Discount	\$ 0.025	= 40 - \$0.05
45	Year 2	Less 5-Cent Discount	\$ 0.023	= 41 - \$0.05
46	Year 3	Less 5-Cent Discount	\$ 0.021	= 42 - \$0.05

NET CONTRIBUTION LESS DISCOUNT ANALYSIS

II ORGANIC GROWTH IN FIRST-CLASS MAIL VOLUMES

INDEX	DESCRIPTION	VALUE	SOURCE
1	Percentages of New First-Class Mail Volume		
2	Organic Growth	5.0%	Assumption
3	Shift from Standard Mail	95.0%	= 1 - [2]
4			
5	First-Class Mail Marketing Letter, After Rates		
6	Year 1 Average Contribution With Contingency -- PRC Version	\$ 0.162	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 9
7	Year 2 Average Contribution With Contingency -- PRC Version	\$ 0.157	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 9
8	Year 3 Average Contribution With Contingency -- PRC Version	\$ 0.151	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 9
9			
10	Standard Mail Letter		
11	Year 1 Average Contribution With Contingency -- USPS Version	\$ 0.090	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 12
12	Year 2 Average Contribution With Contingency -- USPS Version	\$ 0.087	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 12
13	Year 3 Average Contribution With Contingency -- USPS Version	\$ 0.083	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 12
14			
15	Year 1 Average Contribution With Contingency -- PRC Version Proxy	\$ 0.087	OCA-USPS-T1-46-I at 35
16	Year 2 Average Contribution With Contingency -- PRC Version Proxy	\$ 0.084	OCA-USPS-T1-46-I at 36
17	Year 3 Average Contribution With Contingency -- PRC Version Proxy	\$ 0.080	OCA-USPS-T1-46-I at 37
18			
19	Net Contribution of Organic Growth		
20	Year 1	\$ 0.162	= 6
21	Year 2	\$ 0.157	= 7
22	Year 3	\$ 0.151	= 8
23			
24	Year 1 Less 5-Cent Discount	\$ 0.112	= 20 - \$0.05
25	Year 2 Less 5-Cent Discount	\$ 0.107	= 21 - \$0.05
26	Year 3 Less 5-Cent Discount	\$ 0.101	= 22 - \$0.05
27			
28	Net Contribution of Shift From Standard Mail		
29	Year 1	\$ 0.072	= 6 - 11
30	Year 2	\$ 0.070	= 7 - 12
31	Year 3	\$ 0.068	= 8 - 13
32			
33	Year 1 Less 5-Cent Discount	\$ 0.022	= 29 - \$0.05
34	Year 2 Less 5-Cent Discount	\$ 0.020	= 30 - \$0.05
35	Year 3 Less 5-Cent Discount	\$ 0.018	= 31 - \$0.05

NET CONTRIBUTION LESS DISCOUNT ANALYSIS

II ORGANIC GROWTH IN FIRST-CLASS MAIL VOLUMES

INDEX	DESCRIPTION	VALUE	SOURCE
36			
37	Net Contribution of Shift From Standard Mail With USPS/PRC Version Effect		
38	Year 1	\$ 0.075	= 6 - 15
39	Year 2	\$ 0.073	= 7 - 16
40	Year 3	\$ 0.071	= 8 - 17
41			
42	Year 1 Less 5-Cent Discount	\$ 0.025	= 38 - \$0.05
43	Year 2 Less 5-Cent Discount	\$ 0.023	= 39 - \$0.05
44	Year 3 Less 5-Cent Discount	\$ 0.021	= 40 - \$0.05
45			
46	Weighted-Average Net Contribution of Organic Growth and Shift from Standard Mail		
47	Year 1	\$ 0.077	= 2 * 20 + 3 * 29
48	Year 2	\$ 0.074	= 2 * 21 + 3 * 30
49	Year 3	\$ 0.072	= 2 * 22 + 3 * 31
50			
51	Year 1 Less 5-Cent Discount	\$ 0.027	= 47 - \$0.05
52	Year 2 Less 5-Cent Discount	\$ 0.024	= 48 - \$0.05
53	Year 3 Less 5-Cent Discount	\$ 0.022	= 49 - \$0.05
54			
55	Weighted-Average Net Contribution of Organic Growth and Shift from Standard Mail With USPS/PRC Version Effect		
56	Year 1	\$ 0.079	= 2 * 20 + 3 * 38
57	Year 2	\$ 0.077	= 2 * 21 + 3 * 39
58	Year 3	\$ 0.075	= 2 * 22 + 3 * 40
59			
60	Year 1 Less 5-Cent Discount	\$ 0.029	= 56 - \$0.05
61	Year 2 Less 5-Cent Discount	\$ 0.027	= 57 - \$0.05
62	Year 3 Less 5-Cent Discount	\$ 0.025	= 58 - \$0.05

NET CONTRIBUTION LESS DISCOUNT ANALYSIS

III POSTAL RATE INCREASES

INDEX DESCRIPTION

VALUE SOURCE

1	Potential Average Rate Increase		
2	Year 1	0.0%	Assumption
3	Year 2	0.0%	Assumption
4	Year 3	10.0%	Assumption
5			
6	First-Class Mail Letter		
7	Year 1 Revenue	\$ 0.292	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 1
8	Year 2 Revenue	\$ 0.292	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 1
9	Year 3 Revenue	\$ 0.292	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 1
10			
11	Year 1 Revenue Including Potential Average Rate Increase	\$ 0.292	= (1+ [2]) * [7]
12	Year 2 Revenue Including Potential Average Rate Increase	\$ 0.292	= (1+ [3]) * [8]
13	Year 3 Revenue Including Potential Average Rate Increase	\$ 0.321	= (1+ [4]) * [9]
14			
15	Standard Mail Letter		
16	Year 1 Revenue	\$ 0.177	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 10
17	Year 2 Revenue	\$ 0.177	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 10
18	Year 3 Revenue	\$ 0.177	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 10
19			
20	Year 1 Revenue Including Potential Average Rate Increase	\$ 0.177	= (1+ [2]) * [16]
21	Year 2 Revenue Including Potential Average Rate Increase	\$ 0.177	= (1+ [3]) * [17]
22	Year 3 Revenue Including Potential Average Rate Increase	\$ 0.195	= (1+ [4]) * [18]
23			
24	First-Class Mail Marketing Letter, After Rates		
25	Year 1 Average Contribution With Contingency -- PRC Version	\$ 0.162	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 9
26	Year 2 Average Contribution With Contingency -- PRC Version	\$ 0.157	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 9
27	Year 3 Average Contribution With Contingency -- PRC Version	\$ 0.151	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 9
28			
29	Year 1 Average Contribution Including Potential Average Rate Increase	\$ 0.162	= 11 - 7 + 25
30	Year 2 Average Contribution Including Potential Average Rate Increase	\$ 0.157	= 12 - 8 + 26
31	Year 3 Average Contribution Including Potential Average Rate Increase	\$ 0.180	= 13 - 9 + 27
32			
33	Standard Mail Letter		
34	Year 1 Average Contribution With Contingency -- USPS Version	\$ 0.090	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 12
35	Year 2 Average Contribution With Contingency -- USPS Version	\$ 0.087	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 12

NET CONTRIBUTION LESS DISCOUNT ANALYSIS

III POSTAL RATE INCREASES

INDEX	DESCRIPTION	VALUE	SOURCE
36	Year 3 Average Contribution With Contingency -- USPS Version	\$ 0.083	USPS-T-1 Appendix A, Revised 9/1/2004, Page 10 at 12
37			
38	Year 1 Average Contribution Including Potential Average Rate Increase	\$ 0.090	= 20 - 16 + 34
39	Year 2 Average Contribution Including Potential Average Rate Increase	\$ 0.087	= 21 - 17 + 35
40	Year 3 Average Contribution Including Potential Average Rate Increase	\$ 0.101	= 22 - 18 + 36
41			
42	Net Contribution with Postal Rate Increases Effect		
43	Year 1	\$ 0.072	= 29 - 38
44	Year 2	\$ 0.070	= 30 - 39
45	Year 3	\$ 0.080	= 31 - 40
46			
47	Year 1 Less 5-Cent Discount	\$ 0.022	= 43 - \$0.05
48	Year 2 Less 5-Cent Discount	\$ 0.020	= 44 - \$0.05
49	Year 3 Less 5-Cent Discount	\$ 0.030	= 45 - \$0.05

NET CONTRIBUTION LESS DISCOUNT ANALYSIS

IV CONSISTENT COSTING METHODOLOGIES, ORGANIC GROWTH, AND POSTAL RATE INCREASES

INDEX	DESCRIPTION	VALUE	SOURCE
1	First-Class Mail Marketing Letter, After Rates		
2	Year 1 Average Contribution With Potential Average Rate Increase -- PRC Version	\$ 0.162	OCA-USPS-T1-46-III at 29
3	Year 2 Average Contribution With Potential Average Rate Increase -- PRC Version	\$ 0.157	OCA-USPS-T1-46-III at 30
4	Year 3 Average Contribution With Potential Average Rate Increase -- PRC Version	\$ 0.180	OCA-USPS-T1-46-III at 31
5			
6	Standard Mail Letter		
7	Year 1 Average Contribution -- PRC Version Proxy	\$ 0.087	OCA-USPS-T1-46-I at 35
8	Year 2 Average Contribution -- PRC Version Proxy	\$ 0.084	OCA-USPS-T1-46-I at 36
9	Year 3 Average Contribution -- PRC Version Proxy	\$ 0.080	OCA-USPS-T1-46-I at 37
10			
11	Year 1 Average Contribution With Potential Average Rate Increase -- PRC Version Proxy	\$ 0.087	= [OCA-USPS-T1-46-III at 20] - [OCA-USPS-T1-46-III at 16] + 7
12	Year 2 Average Contribution With Potential Average Rate Increase -- PRC Version Proxy	\$ 0.084	= [OCA-USPS-T1-46-III at 21] - [OCA-USPS-T1-46-III at 17] + 8
13	Year 3 Average Contribution With Potential Average Rate Increase -- PRC Version Proxy	\$ 0.098	= [OCA-USPS-T1-46-III at 22] - [OCA-USPS-T1-46-III at 18] + 9
14			
15	Net Contribution of Organic Growth With Contingency, USPS/PRC Version Effect, AND Potential Average Rate Increase		
16	Year 1	\$ 0.162	= 2
17	Year 2	\$ 0.157	= 3
18	Year 3	\$ 0.180	= 4
19			
20	Year 1 Less 5-Cent Discount	\$ 0.112	= 16 - \$0.05
21	Year 2 Less 5-Cent Discount	\$ 0.107	= 17 - \$0.05
22	Year 3 Less 5-Cent Discount	\$ 0.130	= 18 - \$0.05
23			
24	Net Contribution of Shift From Standard Mail With USPS/PRC Version Effect AND Potential Average Rate Increase		
25	Year 1	\$ 0.075	= 2 - 11
26	Year 2	\$ 0.073	= 3 - 12
27	Year 3	\$ 0.082	= 4 - 13
28			
29	Year 1 Less 5-Cent Discount	\$ 0.025	= 25 - \$0.05
30	Year 2 Less 5-Cent Discount	\$ 0.023	= 26 - \$0.05
31	Year 3 Less 5-Cent Discount	\$ 0.032	= 27 - \$0.05
32			
33	Weighted-Average Net Contribution of Organic Growth and Shift from Standard Mail With Contingency, USPS/PRC Version Effect, AND Potential Average Rate Increase		
34	Year 1	\$ 0.079	= [OCA-USPS-T1-46-II at 2] * 16 + [OCA-USPS-T1-46-II at 3] * 25

NET CONTRIBUTION LESS DISCOUNT ANALYSIS

IV CONSISTENT COSTING METHODOLOGIES, ORGANIC GROWTH, AND POSTAL RATE INCREASES

INDEX DESCRIPTION

35 Year 2

36 Year 3

37

38 Year 1 Less 5-Cent Discount

39 Year 2 Less 5-Cent Discount

40 Year 3 Less 5-Cent Discount

VALUE SOURCE

\$ 0.077 = [OCA-USPS-T1-46-II at 2] * 17 +
[OCA-USPS-T1-46-II at 3] * 26

\$ 0.087 = [OCA-USPS-T1-46-II at 2] * 18 +
[OCA-USPS-T1-46-II at 3] * 27

\$ 0.029 = 34 - \$0.05

\$ 0.027 = 35 - \$0.05

\$ 0.037 = 36 - \$0.05

CERTIFICATE OF SERVICE

I hereby certify that I have today caused the foregoing document to be served in accordance with Section 12 of the Commission's Rules of Practice.

/s/

Joy M. Leong

September 1, 2004